

July 14, 1999

**VIA HAND DELIVERY**

Mary L. Cottrell, Secretary

Department of Telecommunications and Energy

100 Cambridge Street

Boston, MA 02110

Re: Investigation by the Department into the Pricing and Procurement of Default Service  
Pursuant to G.L. c. 164, sec. 1B(d)

Dear Ms. Cottrell:

Enclosed please find an original and fifteen (15) copies of the comments of Fitchburg Gas and Electric Light Company in response to the questions posed by the Department in the above referenced-proceeding.

I also enclose an electronic copy as requested by the Department's notice.

Kindly file same. Thank you for your assistance with this matter.

Very truly yours,

Patricia M. French

va/pmf

enclosures

COMMONWEALTH OF MASSACHUSETTS  
BEFORE THE  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy )  
on its own Motion into the Pricing and Procurement of Default ) D.T.E. 99-60  
Service Pursuant to G.L. c. 164, sec. 1B(d). )

INITIAL COMMENTS  
OF  
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

I. INTRODUCTION

On June 21, 1999, the Department of Telecommunications and Energy ("Department") solicited comments on the pricing and procurement of default service. As required by G.L. c. 164, sec. 1B(d), the Department sought to determine, through the initiation of this proceeding, the average monthly market price of electricity and how this price should be incorporated into the default service rate. In accordance with its approved restructuring plan (Fitchburg Gas and Electric Light Company, D.T.E. 97-115/98-120 (Jan. 15, 1999)) and the letter of the Department (Letter to Massachusetts Electric Company regarding Pricing for Default Service, dated June 1, 1999), FG&E has been using its standard offer price as the proxy for the market price of electricity and as the basis for its default service pricing. In this filing, FG&E responds to the Department's latest inquiry.

II. COMMENTS OF FG&E

Please see attachments FGE Response to DTE-1-1 through DTE-1-7.

### III. CONCLUSION

Fitchburg Gas and Electric Light Company appreciates this opportunity to respond to the Department's inquiry.

Respectfully submitted,

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By its attorney,

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DATED: July 14, 1999

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

FG&E'S RESPONSES TO THE DEPARTMENT'S INITIAL QUESTIONS  
D.T.E. 99-60  
PRICING AND PROCUREMENT OF DEFAULT SERVICE

**DTE-1-1. Is it appropriate at this time to change the way default service is priced (e.g. to separate the pricing of default service from the standard offer price)?**

ANSWER: It is appropriate to change how default service is priced now because, for many companies including FG&E, standard offer service was procured on a long-term contract basis. FG&E believes that default service should be procured through an RFP process which would cover a period of six to twelve months. This shorter-term market should result in market prices, which may vary from the previously established standard offer prices.

Responsible: David K. Foote, on behalf of Fitchburg Gas and Electric Light Company

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**DTE-1-2. What should be the basis for the "average monthly market price of electricity?" For example, should default service reflect wholesale or retail market costs of electricity? If default service should reflect wholesale prices, what market**

**should provide the basis for the rate (e.g. the wholesale energy market, the wholesale energy and ancillary services markets)? In responding to this question, please be explicit regarding the method for calculating the "average monthly market price of electricity" and/or the default service rate.**

ANSWER: The average monthly market price should be a retail billing price which reflects the wholesale prices adjusted for losses, system capacity factor and operational implementation costs of retail loads. To the extent the default service wholesale bid prices include ancillary service such as operating reserve, automatic generation control charges and installed capacity charges, the retail price should include these costs in the average monthly market price.

RESPONSIBLE: David K. Foote, on behalf of Fitchburg Gas and Electric Light Company

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**DTE-1-3. If the default service rate should reflect retail prices, how should the rate be determined? For example, should the rate be a benchmark price based on average retail energy prices in Massachusetts or in the region? Should the rate reflect a combination of wholesale prices and bilateral contracts e.g. HEFA)? Alternatively should each distribution company establish a default service rate by determining actual or estimated costs associated with the provision of retail service to default customers? In responding to this question, please be explicit regarding the method for calculating the average monthly market price of electricity and/or the default service rate.**

ANSWER: FG&E believes that the default service rate should be determined on a company-by-company basis based on the best bid prices received through RFP procurement. While FG&E recommends that such an RFP to procure this service be done each six months, it could also be conducted on a once-per-year basis covering 12 monthly rates and two six-month fixed rates. As indicated in the response to DTE-1-2, to the extent the RFP contract payment is not based on retail kWh loads, that price would have to be adjusted to reflect losses, system capacity factors and operational implementation costs of the default system.

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**DTE-1-4. Does the use of retail market data require that the cost of retail services to default customers be moved from the distribution component of customers' bills to the generation component of customers' bills? If so, how would that best be accomplished?**

ANSWER: FG&E does not believe that there is any need to move non-power costs from the distribution component of customers' bills. FG&E believes that all power-related components have been previously properly classified in the correct component of customers' bills.

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**DTE-1-5. How should the price be determined? For example, should be price be based on historic market prices or on projected market prices, or should it vary with the actual market price over the course of a month?**

ANSWER: FG&E believes that the Department should define market prices as the best bids through RFP that a Company receives for the relevant billing periods. This is because there are significant problems with every other option. Using actual short-term market prices for default service that contain price points which by necessity vary throughout the month is likely to be very confusing to consumers in these early stages of competitive retail electricity markets (e.g. a consumer is unable to capture appropriate price signals upon which to base his consumption). Using historic market prices is untrustworthy because it will create an inherent lag that biases the price charged consumers. Using forward-looking, administratively modeled projections, however well conceived, will result in variances which have to be trued up, risking the unintentioned outcome that the reconciled charge is not recovered ultimately from the customers who caused the cost because of (a) the changeable nature of the default customer and (b) the fact that such a customer can leave default service and move to competitive supply at any reasonable time.

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**DTE-1-6. How often should default service be competitively procured?**

ANSWER: RFP's for competitive default service procurement should be awarded every six months and should include a six-month fixed price provision and individual monthly rates. An alternative to this could be a 12-month cycle, which would include two six month fixed price components and 12 individual monthly rates.

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**DTE-1-7. Are there examples from other states that would be useful to the Department in deciding how to determine the default service price?**

ANSWER: There are no programs from other states known sufficiently by FG&E such that FG&E would recommend them to the Department. Anecdotally, FG&E is informed that, inter alia, Maryland will require a bid mechanism for pricing default service (see, e.g. Re Provision and Regulation of Electric Service, Case No. 8738, Order No. 74561 (MD PSC, 1998)), that Pennsylvania requires an annual competitive bidding for default service (see e.g. Re PECO Joint Petition for Full Settlement, Dockets R-00973953, P-00971265 (PA PUC slip op., 1998)) and that Oregon and Nevada have or are contemplating a form of competitive bid requirement for default service as part of the transition to a competitive market.

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